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Trade Policy Monitoring

Reforms of the EU Fruit & Vegetable Sector: Part 1 - Production and Marketing of EU Table Grapes

2006

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Report Highlights:

In light of the proposed Common Agricultural Policy (CAP) and Common Market Organization (CMO) reforms of the EU fruit and vegetable sector, this is the first part of a series of reports that will examine the evolution of the EU market structure.

This report provides an overview of the European table grape industry, specifically emphasizing the existing patterns of table grape production, consumption and trade. The focus is on the EU's largest table grape producers (Italy, Spain and Greece), which together account for over 90 percent of EU production. By analyzing the existing structure and competitiveness of the EU table grape sector, this report considers some of the challenges in implementing the new reforms.

Includes PSD Changes: No
Includes Trade Matrix: No
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1. INDUSTRY OVERVIEW

1.1. PRODUCTION

The EU produces an enormous variety of grapes. Species are separated depending on their final use: wine, table offerings, and raisins. These specialized varieties are the result of quality-improving traditions in the vineyards including continuous advancements in vine selection.

Most harvested grapes in the EU are earmarked for wine production (about 65 percent of the total grape production). Wine varieties typically have different characteristics from grapes used for raisins or table consumption. However, some varieties such as Muscatel have multiple uses.

Vines are grown primarily in temperate areas but can be cultivated in drier regions. The need for increased yields has lead to the implementation of more competitive irrigation systems all around the world.

Main producer regions

World Table Grape Production, Trade and Consumption (Avg. 2000-'04)

Country	Production (000 MT)	Imports (000 MT)	Exports (000 MT)	Consumption (000 MT)
China	4,988	54.77	12.55	5,030
EU-25	3,529	396.00	99.00	3,826
Turkey	1,720	0.12	115.31	1,605
Chile	1,040	0.03	665.84	374
United States	813	512.63	297.96	1,028
S. Africa	337	0.37	202.93	134
Japan	222	12.79	0.08	235
Mexico	189	80.32	134.70	135

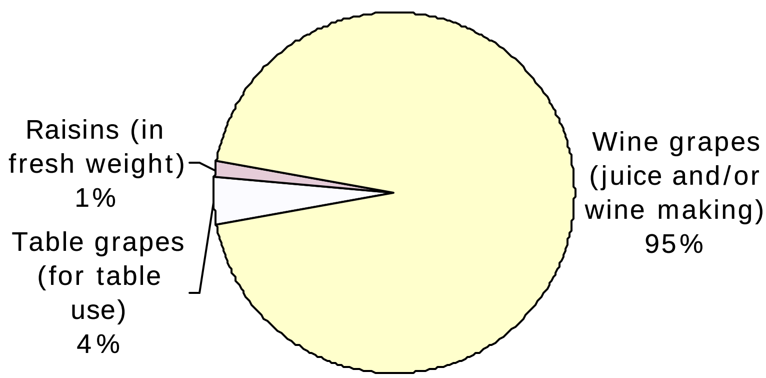
Source: USDA & Eurostat

As noted in the chart above, the European Union is the second largest producer, importer and consumer of table grapes. As exports continue to be low, the EU remains a net importer of table grapes in the world market.

Globally, China is the world's largest producer and consumer of table grapes. However, its role in the international trade arena is less important than other nations as both imports and exports are relatively low. Still, it should be noted that in recent years China's exports have skyrocketed from 667 MT in 2000 to 25,000 MT in 2004 (see Annex I).

Also, it is important to mention Turkey's role as a large global producer and consumer of table grapes. With the accession of Turkey to the European Union, the EU could become the world largest table grape producer.

Vineyard Surface in EU-25 (avg. 2000-2002)



Source: Eurostat

As mentioned, most of the grapes harvested in the EU are intended for wine production with only five percent of European vineyards cultivated for table grapes or raisins. Raisin producers are located primarily in Greece (producing 422 thousand tons), with only residual production in Spain's southern Andalusia area.

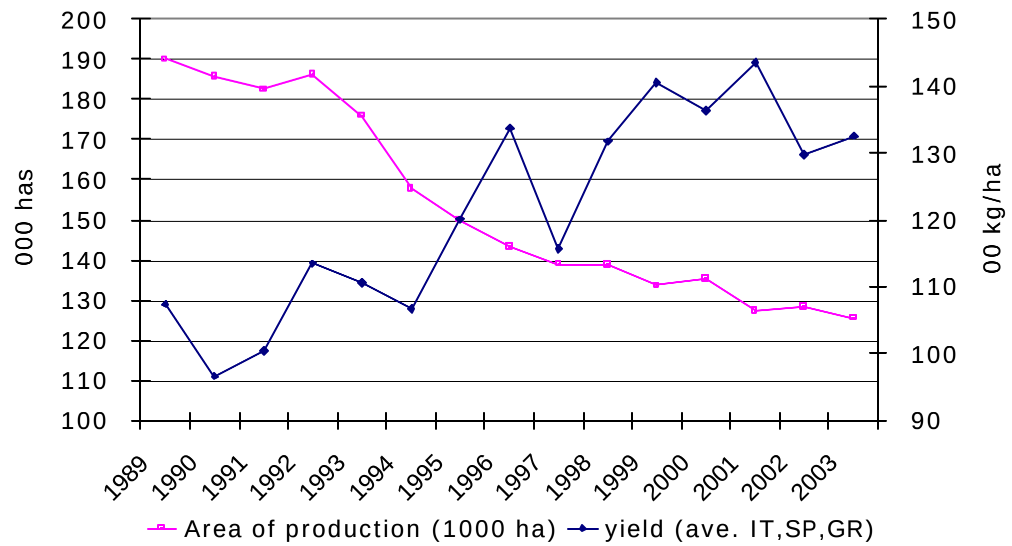
Table grapes Production: EU-Top producers (Avg. 2000-'02)

	1000 has	1000 t	100 kg/ ha
EU-25	169	2,105	145
Italy	73	1,464	200
Spain	26	321	122
Greece	14	145	147
France	10	80	87
Portugal	6	55	90
Hungary	8	35	44

Source: Eurostat

Within the EU, table grape producers are located mainly in the Mediterranean Basin. The primary producer is Italy, representing about 70 percent of total EU production; Spain is second (15 percent) followed by Greece (8 percent). These three countries together comprise over 90 percent of the EU-25 harvest. Less than ten percent of the table grapes produced in the EU are grown in the New Member States due, in part, to the cooler climate. Hungary has significant amount of vineyards; however, yields are quite low.

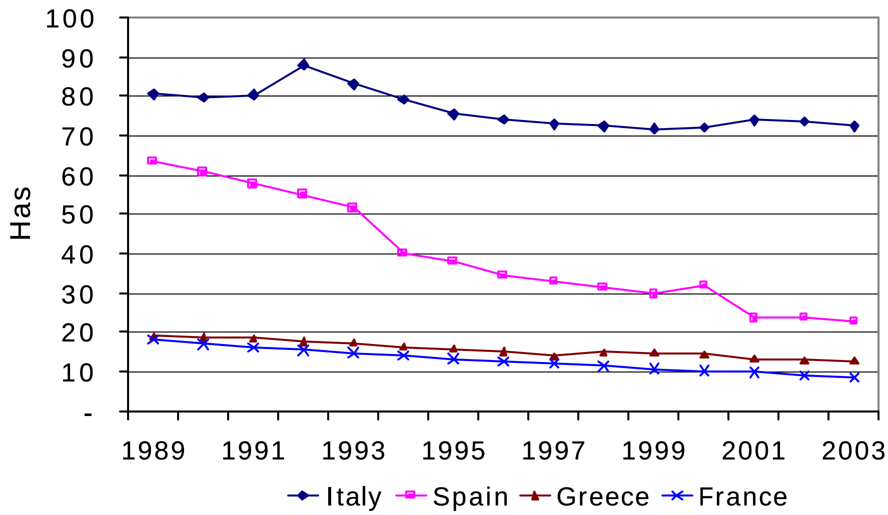
EU Table grape production



Source: Eurostat

In the EU-25, land devoted to table grape production has steadily decreased over the last decade. From 1993 to 2003, 30 percent of the table grape vines were abandoned. The reasons for this decline include: retiring producers, poor yields (viruses, old vines, poor varieties, etc), high input costs, as well as difficulties in the export market and increasing pressure from imports. This is especially true in Spain where since the early nineties one-third of the surface area used in table grape production has been abandoned, reducing production by about 25 percent. Conversely, improvements in farm techniques and irrigation methods as well as new vine varieties have increased yield on the remaining land by 20 percent.

Table grapes Area (1000 has)



Source: Eurostat

Historical yield averages for the four EU largest producers (Italy, Spain, Greece and France) are shown in the graph. Yield differences can be explained by differences in production techniques (irrigated vs. non-irrigated, use of trellises etc), vine varieties, age of the vines, etc. Currently, most of the competitive vines are grown on trellis with a system of localized fertirrigation, or water infused with fertilizers or nutrients.

In Italy, the two regions where the most table grapes are grown are Puglia (66 percent) and Sicily (25 percent), where the yield is about 20 tons per hectare. The rest of Italian production suffers from severe minifundism (division of large lands holdings into smaller plots) hindering mechanization (irrigation, trellises, harvesting, etc), and the production hardly reaches 10 tons per hectare. Eighty percent of Italian production is made up of two white grape varieties: *Italia* (also known as *Ideal*) and *Regina*. Seedless varieties are on the rise, but they still represent only 2-3 percent of production and are mainly exported to northern European markets (especially the UK).

In Spain, table grape vineyards are concentrated in three regions: Valencia (56 percent), Murcia (29 percent) and Andalusia (12 percent). Eighty percent of these vineyards are irrigated and yield 16 tons per hectare (t/ha) on average. The other 20 percent of the land produces only about 4.4 t/ha. Popular, high yielding vines in Spain include *Italia* and *Aledo* varieties. *Napoleon* vines, while popular, tend to be lower yielding on account of viruses and older vines. The non-irrigated, multi-purpose (raisins) *Muscatel* grapes produce only about 5 t/ha partially due to the lack of water and, again, partially due to viruses and aged vines. With the support of local community measures and research centers, there have been significant investments in restructuring and conversion to more competitive varieties (seedless types and those with different harvesting seasons). Recently, the Spanish government approved a 12€ million program promoting the replacement of old vines on 3,000 hectares (13 percent of the total surface) between 2005-2009. These national funds will finance up to 20 percent of the project, which is intended to increase the competitiveness of the Spanish table grapes.

In Greece, only about 70 percent of the vines produce what are considered marketable grapes; of these more than 40 percent come from the regions of Macedonia and Trace. Thessaly, Peloponesse and Crete are also significant producing regions, with yields varying from 6 to 15 t/ha. Although there are about 60 table grape varieties cultivated in Greece, some of the most popular are *Cardinal, Muscat D' Italia, Razaki de Ungeria, Fresh Sultanas, Victoria, Muscat du Hamburg,* and *Perlette*. As in Italy and Spain, there has been a recent shift to producing seedless grapes, specifically *Thompson* varieties. Also, *Red Globe, Ruby seedless* and *Christmas rose* have been grown experimentally for the past 5 years with encouraging results.

Throughout European table grape producing regions, minifundism continues to be a problem. In many regions, the average farm is less than five hectares. Plots vary from 3.4 hectares in Sicily to less than 0.5 hectares in most of Greece and about 1.5 hectares in the Valencia region in Spain. Additionally, in Greece acreage statistics include a number of small dual-purpose farms where grapes are grown with olive trees. In Spain, land prices have sky rocketed due to farm proximity to tourist destinations and large population centers, a situation which does not alleviate the pervading minifundism.

Irrigation is crucial in Europe's southern regions, where summers are usually very hot and dry. Non-irrigated vineyards (20 percent of vineyards in Spain) have an average yield one-third that of irrigated plots. In the past, irrigation consisted mainly of flooding the plot. But in recent years there has been a shift to drip irrigation due to water's high cost and low availability as well as the potential for fertirrigation. In some cases these investments are supported by state and European Commission funds.

In Italy and Spain, many of the vines for table grape production are trellised. In Greece less than half of the vineyards are on trellises, although in some regions such as Macedonia & Trace, vineyards may be up to 60 percent trellised. Types of trellis differ from place to place, from simple wiring to more complex wood constructions. In some regions plants may also be covered with removable plastic or paper film to speed up and/or delay ripening. This very effective but expensive system also creates a favorable environment for pests and, thus, unfavorable working conditions.

Regarding working environments, on the smaller more rural farms, such as those in the regions of Crete, Peloponnesian Islands or those in mountainous areas, manual labor predominates. This may include pruning, plant protection, weed control, and harvesting all by hand. Better mechanization is found in the plowing, fertirrigation or pruning in regions such as Valencia, Murcia, Central Greece, Macedonia and Thrace. Harvesting is not as mechanized, and it is mainly confined to support machinery such as carts for moving boxes and hydraulic scissors. In Italy, an increasing number of companies are testing movable machines that combine harvesting, packaging and palletting in the field. Thus far, it appears these machines are very effective, improving efficiency four-fold. These tasks, together with the maintenance of the structures and care of the grapes, require considerable numbers of seasonal laborers; most of these workers are immigrants or family members.

At the producer level, farmers are an aging population (avg. 50-55). Low margins and market difficulties discourage younger generations from entering the profession. Moreover, many farmers are either uninterested or unwilling to join cooperatives and/or producers organizations. Given the large imbalances in supply and trade distributions, this unwillingness may prove to be a self-imposed weakness for the industry.

Most of the vineyards are grown via traditional production, but a rising percentage are grown through integrated production, with a rationalized use of pesticides and fertilizers. Organic cultivation is less significant due to the extensive requirements and the lack of demand to compensate the effort. Financial support is provided by the European Commission and Member States to promote these environmentally-friendly techniques, both organic and integrated techniques, through Operational Programs and direct aid.

Concerning packaging and marketing, in Greece, farmers either sell fruit to local and urban central markets themselves, through wholesalers, or to packers/exporters. Farming groups of 100-150 growers are organized and have accessed sorting, packing and deep freeze facilities, which permit their grape harvest to arrive in prime condition on the EU markets. In Spain, the marketing operations (sorting, packaging, labeling etc) are largely done in small, family-owned businesses. In Italy, most of the packaging takes place in large warehouses owned by large producers/traders. They have modern cleaning, sorting, and packing chains, as well as large refrigerated warehouses. Most of them market their own brand as well as supermarkets' private labels. Local or regional authorities monitor, inspect and certify fruit and packaging quality, labeling and minimum residual levels (MRLs), finally stamping documents before the product is distributed either locally or to export markets.

1.2. CONSUMPTION

Consumption (1000 tons)

Country	'99-'04	Country	'99-'04
Italy	750.50	**Sweden**	42.90
Germany	315.83	**Czech Rep.**	39.00
United Kingdom	300.77	**Bulgaria**	38.60
France	220.49	**Ireland**	34.20
Spain	154.30	**Finland**	33.30
Greece	145.68	**Hungary**	32.33
Poland	129.67	**Austria**	29.82
Portugal	71.40	**Lithuania**	17.15
Belgium	65.80	**Finland**	11.19
Romania	64.00	**Estonia**	9.43
Netherlands	45.83	**Malta**	4.62

Source: Eurostat and estimations

While also a significant exporter, Italy is also the EU's leading consumer of table grapes, consuming twice as much as Germany, the EU's second largest consumer. Other leading consuming nations include the United Kingdom, a major importer, and Spain and Greece, major producers. Per capita, Italians and Greeks consume the most table grapes - around 13 kilograms per person per year. Throughout the Mediterranean, high quality product is destined for large fruit and vegetable markets or tourist venues. Lower quality grapes are often destined for "on farm" consumption, local produce markets and regional wholesale markets or trading companies.

2. TRADE

2.1. OVERVIEW

Table grapes EU-25 (000 MT)

Source: Eurostat

As shown in the above graph, Europe remains a significant net importer of table grapes, with imports almost four times greater than exports. Despite some export growth, this margin is widening annually. Nevertheless, intra-EU trade, or trade amongst EU member states, is still much more important than external EU trade, or trade with nations outside the EU, as seen below.

Imports to the EU-25 (avg. 2003-'04)

PARTNER	Tons	Million euros
EU-25	1,266,745	1,596
EU-25 INTRA	838,284	955
EU-25 EXTRA	428,461	641

Source: Eurostat

Exports from the EU-25 (avg. 2003-'04)

PARTNER	Tons	Million euros
EU-25	926,016	1,015
EU-25 INTRA	827,502	916
EU-25 EXTRA	98,514	99

Source: Eurostat

Table Grape Trade Intra-EU (Avg. '99-04)

Imports	Tons		Exports	Tons
EU-25	1,309,528		EU-25	1,031,763
Germany	363,269		Italy	573,167
United Kingdom	184,399		Netherlands	120,782
Netherlands	166,514		Spain	111,978
France	152,274		Greece	84,055
Belgium	97,645		Belgium	63,740
Poland	81,118		Austria	21,869
Austria	52,369		France	17,304
Czech Republic	40,525		Germany	17,020
Portugal	27,545		United Kingdom	6,605
Spain	24,632		Slovakia	5,461

Source: Eurostat

2.2. IMPORTS

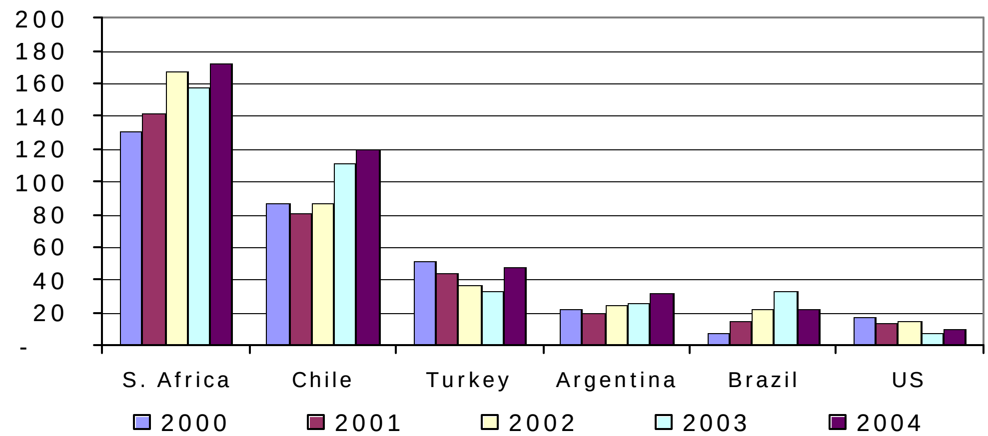
The European Union is the largest importer of fresh fruits and vegetables in the world. With EU production relatively limited by the cooler climate and shorter growing seasons, the population is dependant on imports of fruits and vegetables, including table grapes.

Table Grape Imports to the EU-25 (Avg. 2003-'04)

PARTNER	Tons	Million euros
EU-25	1,266,745	1,596
EU-25 INTRA	838,284	955
EU-25 EXTRA	428,461	641
South Africa	165,840	264
Chile	105,594	151
Turkey	39,214	30
Argentina	27,779	36
Brazil	25,761	47
US	10,929	23

Source: Eurostat

Main EU table grape suppliers

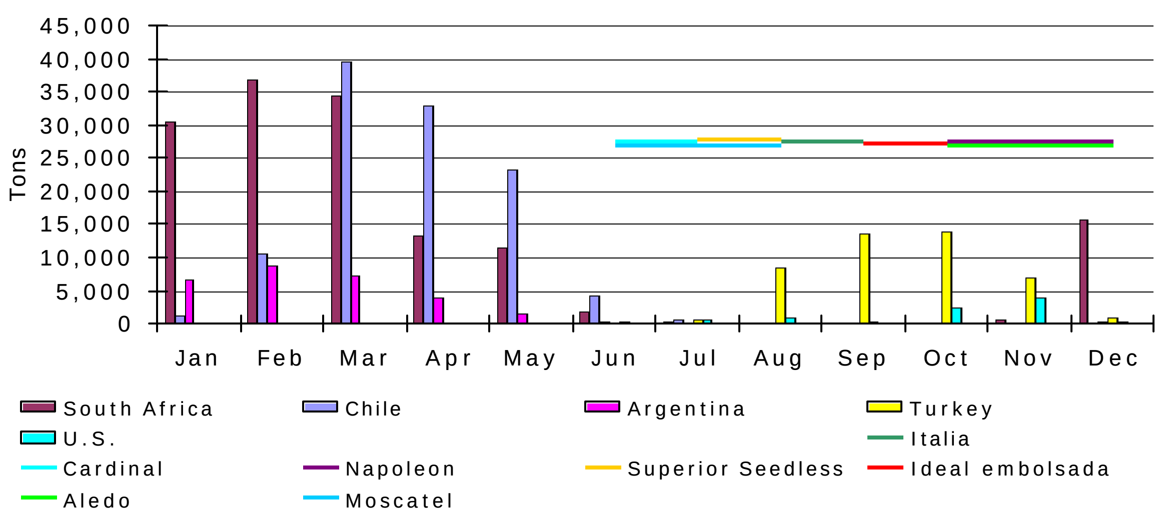


Source: Eurostat

Two-thirds of all imports are intra-EU, with the extra-EU imports originating predominantly from countries in the Southern hemisphere where production is counter-seasonal to the EU. Specifically, South Africa is the largest supplier, followed by Chile, Argentina and Brazil. All of these countries have shown steady export growth in the past five years. Conversely, the EU imports far less product from those countries whose growing seasons coincide with their own, particularly Turkey and the U.S.

Understandably, the large importing countries are also the large consuming nations. This is except for the Netherlands, where the focus is primarily on table grape trade not consumption. While still a premier market, Germany's imports have decreased by ten percent over the past six years. This is in contrast to other EU countries, specifically the UK, the Netherlands and Czech Republic with growth rates of almost 50 percent. Italy, as the EU's leading consumer and producer of table grapes (responsible for more than half of the total Community production), has no significant import market.

Seasonality: Imports & Harvest seasons



Source: Eurostat and USDA

2.3. EXPORTS

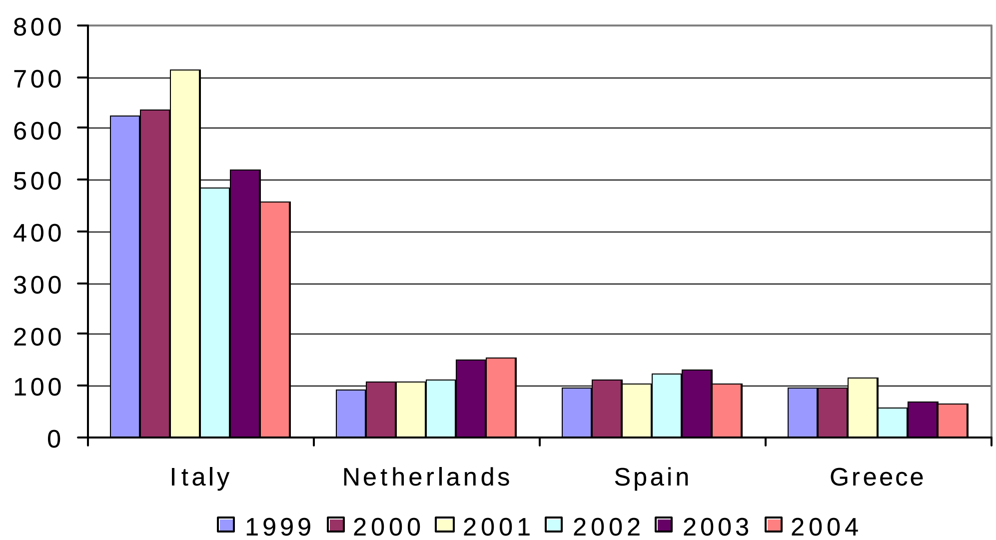
Exports from the EU-25 (Avg. 2003-'04)

PARTNER	Tons	Million euros
EU-25	926,016	1,015
EU-25 INTRA	827,502	916
EU-25 EXTRA	98,514	99
Russia	22,402	23
Switzerland	26,156	33
Norway	11,474	14
Croatia	6,575	3
Albania	3,890	2

Source: Eurostat

Only 10 percent of the product produced in the EU is destined for ports outside the EU. Primary countries accepting these exports include Russia, Switzerland and Norway. Still, in line with the general European decline in fresh fruit consumption, these markets are waning as well.

Exports (million tons)



Source: Eurostat

Dutch export activity has being growing significantly - up 70 percent in six years. Conversely, in Italy – where almost 80 percent of the domestic production is exported –numbers peaked in 2001, but plummeted after, losing one-third of the market in the following three years. Spain, the second largest EU producer, exports just one-third of its production, practically all of it to the EU-25. Greece exports about two-thirds of its production.

3. STRATEGIC ANALYSIS

The following table offers a SWOT Analysis (Strengths, Weaknesses, Opportunities and Threats) for the table grapes in the European Union, highlighting some of the main characteristics of the sector.

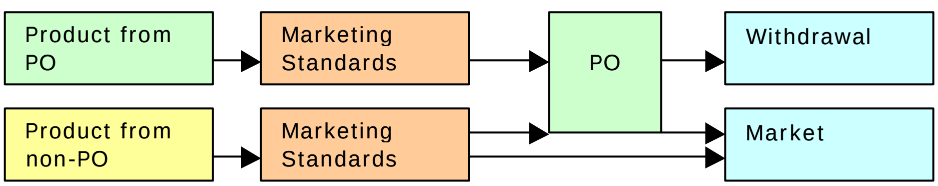
Strengths	Weaknesses
Structural • Fertirrigation (providing plants with the nutrients they need dissolved in 'irrigation' water) • Modernize trellis • Restructuring & conversion of old vineyards • Research centers (cloned selection of free-virus vines) • Plans for young farmers (<40 yo) to taking over elderly farmers. **Production** • Plans for sustainable & organic production • Risk management (weather insurance in Spain) • Concentration of the production (clusters): Highly concentrated & specialized. **Marketing** • Geographical Indications • Marketing & Exporter Associations (FEPEX in Spain) • Promotion campaigns (Member State, EU) • Forums to discuss the possible strategies	**Structural** • High minifundism (< 5 has) • Farmers' age (avg. 50-55) • Lack of interest in Producer Organizations • Low advantage of the Common Market Organization • Price of land **Production** • High energy & labor prices • Lack and cost of water (Southern regions) • Bad quality of water (some regions) • Viruses • Age and variety of vineyards **Marketing** • Stagnation of the demand: disappearance of seasonality • Pressure on prices by the distribution chains • Low margins for producers • Obsolete marketing strategy
Opportunities	**Threats**
• Research centers (new varieties: seedless, different harvesting season) • 5-a-day campaign, EU Obesity policy, healthy eating campaigns • Reducing production costs: chemical thinning of grape bunches, mechanization • Development of new markets (Russia) • Improve POs and cooperatives;	• Abandonment of the farms (farmers' age, low margins, lack of hand labor etc) • Decrease of demand (substitutive products: tropical fruit, processing food, etc • Increase of competition (Turkey, China etc) • Minifundism • Weather • Lower margins

Source: FAS Brussels

4. CMO AND PRODUCER ORGANIZATIONS

The table grape sector is regulated by the Common Market Organization (CMO) of Fruit & Vegetables (Council Regulation (EC) 2200/96) under the EU Commission - DG AGRI. The grapes for wine production are regulated by a completely different regulation (Council Regulation (EC) 1493/99), with different organization structure, and also different market measures. Therefore, vines must be perfectly defined by their final use.

Producer organizations (POs) are the key element of the EU's current CMO for fruits and vegetables. POs are responsible for the marketing of products within any of the seven following categories: fruits and vegetables, fruit, vegetables, products, intended for processing, citrus, nuts and mushrooms. The producer organizations seek to adjust production to market demand; to promote supply grouping and marketing of producers' produce; to reduce production costs and stabilize producer prices; as well as to promote cultural practices and environmentally-friendly waste management. Forty percent of the entire EU fruit and vegetable production is marketed through POs. The producer organizations channel 100 percent of members' production, and they are also responsible for the management of the operational program and withdrawals (intervention). According to the European Commission, in 2001, there were around 1,400 producer organizations for the EU-15, with approximately 460,000 members total. The majority of POs had less than 50 members. The value of product marketed through these European POs was approximately 14,435 € million, which represented around one third of the EU total production.



4.1. OPERATIONAL PROGRAMS

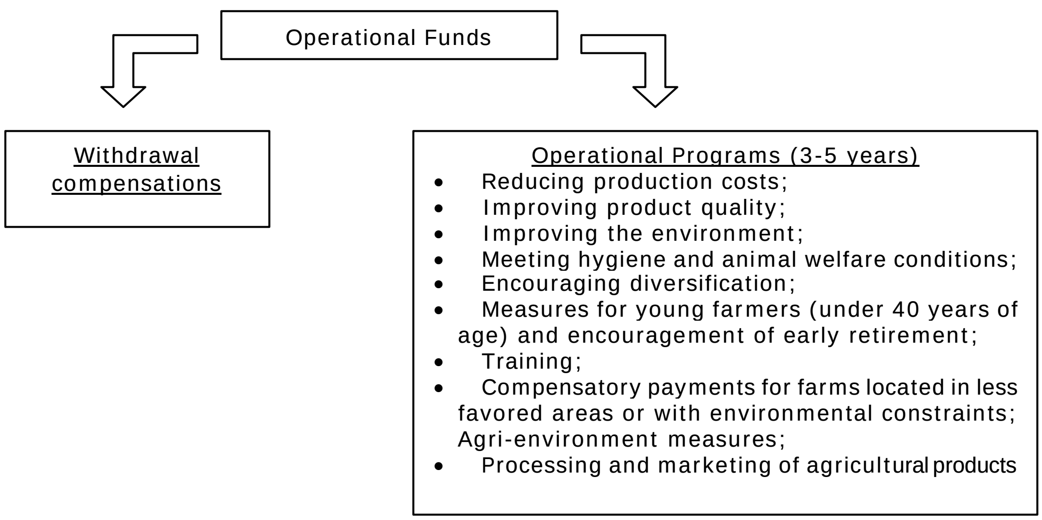
Subsidies for fruits and vegetables in the EU are not paid directly to the producer (i.e. no income support payments) but instead are channeled through the POs. In order to qualify for these subsidies, POs must submit an operational program to the responsible Member State authorities. These operational programs must comply with EU standards and objectives such as supply and price management, marketing programs, quality improvements, and promoting environmentally friendly methods. Additionally, operational programs must run for at a minimum of three years and a maximum of five years.

An operational program is financed by an operational fund, an account set up by the PO. The operational fund is co-financed by the European Union and the member producers. The EU's financial contribution is paid directly into the PO operational fund at the rate of 50 percent of the actual expenditure or 4.1 percent of the value of marketed production, whichever is lowest (Commission Regulation (EC) No 1433/2003). Contributions from its members are based on the volume of value of products for which the PO was recognized. The measures from the operational programs are not compatible with Rural Development measures. Every country or region fixes a threshold to separate which ones can be financed operational funds and which ones by Rural

Development Funds. In 2003 expenses for the operational funds paid by the EAGGF was 452€ million, the majority of which went to the processed fruits and vegetables sector.

4.2. INTERVENTION – WITHDRAWAL COMPENSATION

In times of surplus, producer members of POs may benefit from EU market withdrawal compensation for 16 different products including table grapes. The withdrawals are channeled by the POs (from operational funds) to stabilize prices and manage surpluses (Commission Regulation (EC) No 103/2004). Because withdrawals from the market have historically reached levels of upwards of 50 percent of production, in recent years there has been an effort to lower this limit by annually reducing thresholds based on the average annual quantity marketed by the PO over the previous 5 years. The 2002-03 limit for table grapes was six percent and have a Community Compensation of 74.3 €/ton. Non-members of the PO can benefit from the withdrawal compensations as well, but the payment is reduced by ten percent and handling costs are included. The withdrawn products must comply with the marketing standards and cannot be re-introduced onto the market but instead must be freely given away to those institutions that have no bearing on market prices (such as humanitarian relief organizations) or destroyed.



4.3. FRUITS AND VEGETABLES BUDGETARY TRENDS

Since 1997 the global EU budget devoted to fruit and vegetables has declined from approximately 1.4€ billion to 1.3€ billion.

The structure of budgetary expenses has changed dramatically in the CMO for fresh fruit and vegetables since implementation of the CMO reform in 1996. For example, whereas market intervention payments (i.e. withdrawals and export refunds) have decreased by almost 80 percent, payments to operation funds have increased from essentially zero to the 2005 estimate of 854€ million. Most of this money is spent on processed foods, canning and pureeing product.

In 2003, EAGGF (agricultural budget for marketing measures) payments for operational funds stood at 1.1 percent of total fruit and vegetable production in value at the EU level. For the Member States where fruit and vegetable production is significant, EAGGF support varied between 0.1 percent in Portugal and 2.5 percent in Belgium, all well below the 4.1 percent cap.

4.4. PRODUCER ORGANIZATIONS – CONCERNS

There are several issues facing table grape producers and producer organizations. For example, despite promotional efforts, there has been an unmistakable decline in the consumption of fresh fruits and vegetables throughout the European Union.

Additionally, there is one significant change underway in the supply and distribution chain: the trend toward increasing consolidation in the agri-food industry, and particularly in large-scale retailing. With fewer supermarket chains, the increased individual purchasing power has exerted greater influence in the supply chain. Large volume purchasing at competitive rates, has gradually led to greater demand for more specifications, often at greater cost to the producer. Conversely, the concentration of supply by producer organizations remains around 30 to 40 percent, rather than the 60 percent initially expected. Specifically, member participation rates approached 38 percent of Spanish production in 2002, but only 29 percent and 11 percent in Italy and Greece, respectively. In Valencia, which represents more than half of the Spanish table grape production, the three recognized POs are responsible for marketing 15,800 tons, or less than ten percent of the production for the country. In these regions, the role of the cooperatives, if they exist, is focused on giving agronomic, financing & legislative advice; marketing & distribution; trading & processing of leftovers; training; marketing research & promotion; participation in National & International Committees on Ag Policies.

While some producers have found it difficult to organize and develop a PO, others appear dissatisfied with POs inability to recognize different situations and needs. Producers in outlying areas, for example, or those outside the major producing areas, or specialty producers (i.e. organic or direct vendors) often perceive that their interests are not properly represented. In regions where POs are underdeveloped, producers are obviously excluded from CMO support. With the enlargement of the EU to 25, and now 27 members, this situation has deteriorated.

4.5. TRADE MEASURES

4.5.1. Export Refunds And Subsidies

Export refunds are available for EU exporters to third countries to compensate for the difference between EU and world prices (Commission Regulation (EC) No 1961/2001). In light of the GATT Uruguay Round (URAA), export subsidies were reduced by 36 percent by value or 21 percent by value by 2000.

In 2000, EU export subsidies were $25 million, officially under the $48 million cap on fruit and vegetables export subsidies set by the WTO. In 2004, EU expenditure for export refunds was $20.5 million, with the anticipation that refunds would be fully eliminated with the next reform.

4.5.2. Community Preference

A principle goal of the EU CAP is to protect domestic producers by controlling import access and therefore domestic prices. The new entry price system was developed to meet international obligations (under the URAA) while still protecting domestic producers. The entry price system replaces the previous reference price system, and is designed to works together with the EU tariff system.

Specifically, the standard ad-valorem tariff is charged on imports with a c.i.f. (cost, insurance, freight) value at or above the minimum entry price level. Additional duties are applied if the import price falls below the entry price. Entry unit values are established periodically and published in the Official Journal by the Commission every two weeks. The import duty is calculated according the following scheme:

- Produce enter price = Entry price ⇒ Ad valorem duty (See Annex II)
- Produce enter price > Entry price ⇒ Ad valorem duty + Tariff Equivalent (Commission Regulation (EC) No 3223/94 and 1719/2005)

Entry prices fluctuate depending on the time of year; higher prices are in effect during the European production season, returning to lower prices during the off-season. Duty rates may also depend on the grape variety and the product origin due to special agreements the EU has with different countries. The European Commission has an Online customs tariff database, where it is possible to calculate the current import duty.

EU trade preferences are granted to many countries under special bilateral agreements. The rate of reduction usually only applies to the ad valorem custom duty, and is sometimes subject to a tariff quota. Table grapes are considered sensitive products according to the scheme of generalized tariff preferences.

Large table grape exporters to the EU benefiting from trade agreements include: South Africa (European Communities Official Journal L311 of 1999), Chile (Council Regulation (EC) No 312/03), Turkey (Decision No 1/98 of the EC-Turkey Association Council), and Argentina and Brazil under the scheme of generalized tariff preferences (Council Regulation (EC) No 980/2005). The U.S. is the only main exporter with no preferential agreement.

Finally, the EU can apply special safeguard measures (SSGs) if the import price of certain products falls below a “trigger price,” or if the quantities being imported exceed a “trigger volume.” Most trigger prices are well above entry prices so they are of little concern to importers. Table grapes trigger volume from July 1 to November 20, 2006, is set at 222,307 tons. (Commission Regulation (EC) No 1555/96 and No 2123/2005).

4.6. ADDITIONAL SUPPORT

4.6.1. Promotion

The EU finances campaigns to promote agricultural and food products in third countries (Council Regulation n° (EC) 2702/1999). These measures include public relations, promotional activities highlighting quality, hygiene, food safety, nutrition, labeling, animal welfare or environmental concerns. Measures are partially financed (up to 50 percent) by the EU, and the remainder is covered by professional organizations and by the Member States. Additionally, national and regional governments can also support promotional programs, such as the Export Promotion organization of Greece (OPE), which is involved in general promotions for Greek horticultural products, (grapes included) by contributing 45 percent of the required expenditure.

4.6.2. State Aid

State aid for the agricultural sector must be compatible with the EU Common Agricultural and Rural Development Policies and with existing international obligations. In this context, any new aid must be reported to the European Commission, and cannot go into effect until the Commission has authorized it. Aid up to 3,000€ per farmer can be granted for a period of up to three years without notifying the Commission, provided that the total amount of such aid does not exceed limits set by the Commission, currently calculated as about 0.3 percent of the value of production in the agricultural sector by the Member State concerned. Since January 1, 2005, Member States are able to grant aid that is in line with the regulation without the Commission having to approve the aid in advance. However, Member States must provide information certifying that the two ceilings have been respected.

Allowable forms of state aid take into account new developments in agricultural policy, particularly improvement and promotion of quality in agricultural products, preserving environment and traditional heritage.

Main Forms of State-aid

- On farm investment (up to 40 percent of eligible expenses, or 50 percent in less favored areas, i.e. mountain areas)
- Improvement of the environment;
- Animal welfare or hygiene;
- Investments in the processing and marketing of agricultural products (up to 40 percent, with a 10 percent increase for objective 1 areas, i.e. regions with GDP per capita below 75 percent of the Community average);
- Agri-environmental aids;
- Compensations for handicaps in less favored areas;
- Aid to young farmers and assistance for early retirement;
- Processing and marketing capacity;
- Establishment of producer groups;
- Compensation for damage caused by natural disasters or exceptional occurrences, adverse weather conditions or outbreaks of animal or plant disease,
- Aid granted to encourage insurance against such risks;
- Aid to encourage the production and marketing of quality agricultural products;
- Research and development;
- Promotion and advertising of agricultural products;
- Short-term operating loans (*crédits de gestion*) for rescue and restructuring farms in difficulty, and to support employment.

The total amount of state aid awarded to the agricultural sector by the EU-25 Member States was estimated at just over €14 billion in 2004, which represents 28 percent of the CAP budget.

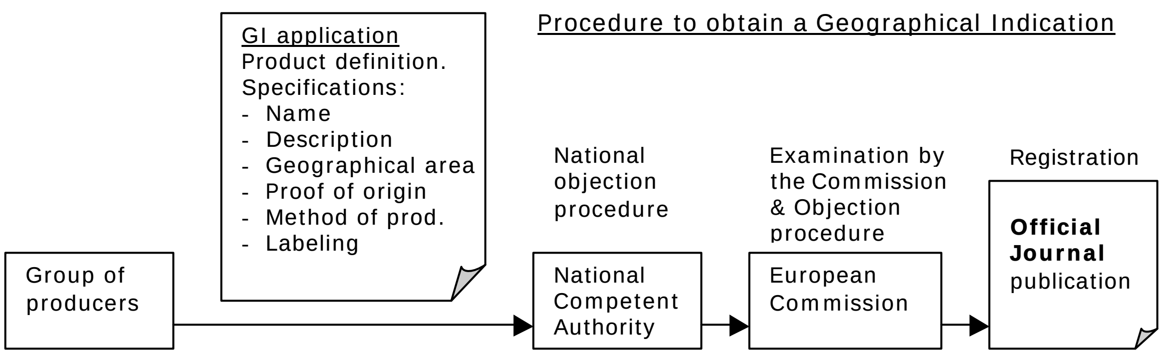
State aid in the table grapes sector has been earmarked for the replacement of old vine varieties with new market-oriented ones (seedless); modernization of the irrigation systems; to encourage insurance against natural disasters (financing up to 46 percent of the insurance fee in Spain); and to promote sustainable agriculture. In the research field, there are developments of new table grapes varieties (seedless, different harvesting periods); new virus-free cloned varieties; chemical thinning of fruits; multi-purpose machineries (picking-packing); improved packing and freezing practice etc.

4.6.3. Quality Schemes And Geographical Indication Policies

The European Union uses a geographical indication (GI) system to help customers recognize the specific character of certain registered products including their quality attributes, geographical indications, traditional production methods etc. The quality standard relating to the GI system are voluntary and specific to each product. The EU uses three basic classifications for its GI system: protected designations of origin (PSO), protected geographical indications (PGI), and traditional specialty guaranteed (TSG). All are designed to protect and promote food products. The number of regional and specialty products registered under EU quality schemes is now 720, and 300 more are currently under review.

Within the EU, there are currently seven approved geographical indications for table grapes:

- Greece: *Corinthiaki Stafida Vositsa*
- Spain: *Uva embolsada del Vinalopó* (3,175 has)
- France: *Chasselas de Moissac* (1,250 has) and *Muscat du Ventoux* (1,150 has)
- Italy*: Uva da tavola di Canicattì* and *Uva da tavola di Mazzarrone*
- Netherlands: *Westlandse druif*



The GI specifications apply to production techniques and quality requirements that are theoretically stricter than those for normal production. Also, the GI product must be labeled in a distinctive way. Although the GI designation may be attractive to some producers, the requirements for registration can be expensive, and farmers don't always feel like they receive proper compensation for the added effort. For this reason, not all the harvested production within a designated geographical indication is GI certified. For example, in 2006, only 13,000 of 45,000 available tons of the *Uva embolsada del Vinalopó* geographical indication was GI certified.

5. THE FUTURE OF EU CMO

Common Agricultural Policy (CAP) Reform

In 2003, the European Council launched a reform of the CAP. The stated aim of the new CAP is to develop a more competitive and market-oriented agriculture, providing farmers the freedom to produce what the market demands, decoupling aid from production. Decoupling is intended to provide a mechanism for supporting farmers, removing incentives to overproduce. Member States have the choice between single farm payments (SFP) or a flat rate divided evenly within the region. The new SFP, which is independent of production, is calculated from the amount of direct subsidies farmers received in a reference period, and is linked to adherence to environmental (cross-compliance), food safety and animal welfare standards. To avoid a complete abandonment of production, Member States could choose to maintain a limited link between subsidy and production under well-defined conditions and within clear limits for certain productions. The plan is phased in from 2005 to 2012; however, decoupling efforts had to be in place by January 1, 2007.

In the 2003 CAP reform, farmers could independently decide which crop to grow. Eligible crops included all types of agricultural land except land used for permanent crops (excluding energy crops) and forestry. As the majority of permanent crops are fruits and vegetables, farmers eligible for the SFP were not allowed to switch to fruit and vegetable production as an alternative to their former crops. The EU fruit and vegetable sector, which did not really benefit from direct income support, was essentially sheltered from the possibility of substantial inflow of new producers coming from the more subsidized sectors.

5.1. REFORM OF FRUIT AND VEGETABLE SECTOR

As the Fruit and Vegetable sector was left out of the 2003 CAP reforms, the Commission and the EU Member States have recognized the need for reform. The reform proposal is expected to become operational in 2008, after debates and the legislative processes with the European Parliament and the Council are concluded.

With little or no chance of increased funding for the fruit and vegetable sector, there are several challenges for the future of the CMO. In the case of the cooperatives and associations, the role of the producer organizations is essential to organize the farmers, enhancing their competitiveness and reinforcing their negotiating position in front of the concentrated demand. Outside the fruit and vegetables sector the implementation of the SFP is seen as a threat to the current system, since the funds would not be channeled through the POs. However, the importance of the POs is generally recognized, and there have been discussions as to how to increase their membership and effectiveness. To accomplish these goals, the final proposal will likely include additional incentives for setting up POs, simplifying the establishment and use of the operational funds, promoting activities involving different POs, encouraging PO mergers and transnational POs, increase flexibility regarding direct sales by PO members to consumers, promote knowledge transfer amongst POs, etc.

Seven EU Member States - Spain, Italy, France, Portugal, Greece, Cyprus and Hungary – have sent a memorandum to the Commission, outlining their collective view on the next reform; a view that coincides roughly with their cooperative organization and union positions. The document expresses the desire for continuity of the current system, improving flexibility in the POs recognition and reinforcing the

Operational Funds. The document also calls for an additional crisis management instrument substituting withdrawals (public-promotion, operational funds); free distribution improvement; and financing control actions such as the green harvesting. Another demand was the maintenance and improvement of the mechanism of aid for processed products, as well as the preservation of the communitarian preference in the WTO Negotiations.

Many of the subsidies given to fruit and vegetable farmers are considered trade distorting, and therefore illegal under international agreements. The new proposal should put together the current three regulations (fresh produce, processed produce and citrus) into a single regulation. Despite some producer demands, the anticipated changes in the CMO include the elimination of subsidies for processing, which are linked to production, transforming them into Single Farm Payments. Withdrawal support is also likely to disappear, and the operational programs should be reinforced with mechanisms for crisis management, which have not yet been well defined.

The implementation and financial distribution of single payments and the elimination of market support mechanisms are the most controversial measures. While the disappearance of certain market support mechanisms (processing aid and withdrawal support) should better enable the European Union to comply with international obligations, producer unions and other organizations have been very critical of the Commission proposal. Their criticism is based on a view that the Commission's position does not provide an adequate safety net for prices, and therefore could jeopardize farmer income. At the same time, the introduction of a new Single Farm Payment for the fruit and vegetable sector also appears to have already sparked considerable controversy. Member States will likely be responsible for determining the allocation of the Single Farm Payment using some form of historical baseline. Such an approach could automatically favor and preserve historical "inefficiencies," rather than encourage more efficient and dynamic production.

ANNEX I: STATISTICS

WORLD production and trade

Production (MT)

Country	2000	2001	2002	2003	2004
China	3,600,000	4,479,000	5,175,939	5,675,000	6,010,000
Turkey	1,650,000	1,650,000	1,750,000	1,750,000	1,800,000
Italy	1,628,000	1,308,000	1,308,000	1,553,423	1,465,438
Chile	955,000	1,002,000	1,065,000	1,075,000	1,105,000
United States	784,184	891,164	730,701	800,663	860,000
Spain	351,000	342,400	332,000	320,600	331,000
Greece	328,412	340,000	308,000	322,000	304,000
South Africa	346,060	337,808	386,787	328,500	285,795
Mexico	188,175	175,942	197,407	154,285	230,800
Japan	225,400	231,700	220,800	205,800	224,300

Source: USDA (FAS / Market and Trade Data / PSD)

Exports (MT)

Country	2000	2001	2002	2003	2004
Chile	545,018	654,932	706,332	692,916	730,000
Italy	667,000	600,000	476,877	600,000	470,000
United States	298,666	307,546	290,866	317,697	275,000
South Africa	181,834	207,279	198,293	237,244	190,000
Mexico	97,739	129,011	166,756	120,000	160,000
Turkey	79,294	79,294	98,730	159,230	160,000
Spain	113,400	98,002	130,090	88,302	115,000
Greece	117,000	117,700	69,000	80,000	70,000
China	667	5,863	13,444	17,799	25,000
Japan	36	61	71	98	110

Source: USDA (FAS / Market and Trade Data / PSD)

Imports (MT)

Country	2000	2001	2002	2003	2004
United States	408,937	518,267	560,989	474,960	600,000
Mexico	75,060	96,820	84,279	69,445	76,000
China	48,587	54,844	53,411	58,986	58,000
Spain	19,700	27,799	27,412	24,122	30,000
Italy	12,000	20,000	14,291	16,577	20,000
Japan	11,510	11,836	12,751	13,873	14,000
Greece	1,500	1,500	1,260	1,000	1,200
South Africa	-	314	478	551	500
Turkey	120	120	40	175	150
Chile	12	12	12	46	50

Source: USDA (FAS / Market and Trade Data / PSD)

EU production

Harvested Production of Table Grapes for Consumption (1000 t)

Country	1996	1997	1998	1999	2000	2001	2002	2003	2004
Italy	1,531	1,302	1,496	1,504	1,524	1,570	1,299	1,323	1,418
Spain	369.0	307.6	344.7	368.4	350.3	302.4	309.0	320.6	331.0
Greece	238.2	217.2	212.1	190.4	209.0	210.0	165.0	155.0	160.0
France	110.5	89.5	89.1	93.7	89.4	89.2	74.0	62.0	72.2
Portugal	55.9	61.4	39.8	55.9	53.3	52.5	58.1	52.4	55.7
Hungary	38.0	42.9	38.6	44.8	32.4	48.1	23.2	22.0	21.6
Slovakia	-	-	-	-	-	2.1	0.8	0.6	0.7
Netherlands	0.1	0.1	0.1	0.1	0.1	-	-	-	-

Source: Eurostat

Harvested Production of Table Grapes for Raisins (Fresh Wt) (1,000 T)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
EU-25	451.5	486.9	497.4	434.0	457.1	424.4	395.2	-	-
Greece	444.0	474.1	490.3	425.0	457.1	420.0	390.0	360.0	400.0
Spain	6.82	11.93	6.73	8.49	-	4.38	5.21	-	-
Italy	0.70	0.80	0.35	0.52	-	-	-	-	-

Source: Eurostat

Average annual prices – Dessert Grapes: all varieties
(Absolute prices: euros/100kg)

Country	1999	2000	2001	2002	2003	2004
Greece	87.47	79.11	97.53	148.56	114.79	81.16
Spain	45.56	43.71	45.47	43.31	42.84	41.41
France	107.02	126.84	-	-	-	-
Italy	59.91	-	-	-	-	-
Hungary	13.45	17.38	16.1	32.26	41.92	19.02

Source: Eurostat

EU trade

Import (tons)

Country	1999	2000	2001	2002	2003	2004	99-04 Avg
Germany	399,739	387,760	363,173	309,881	362,622	356,436	363,269
United Kingdom	153,541	160,841	169,454	195,030	202,267	225,261	184,399
Netherlands	132,785	172,798	149,366	152,110	194,654	197,372	166,514
France	144,472	161,746	164,937	135,493	156,189	150,805	152,274
Belgium	93,836	104,062	101,866	96,394	95,817	93,896	97,645
Poland	88,041	80,841	92,714	69,343	71,739	84,028	81,118
Austria	46,498	54,934	55,757	49,189	46,196	61,641	52,369
Czech Republic	31,709	31,476	44,350	40,396	46,600	48,620	40,525
Portugal	26,876	27,641	26,901	29,332	27,965	26,553	27,545
Spain	20,518	19,664	28,799	24,914	27,403	26,492	24,632
Sweden	24,307	25,076	22,067	18,340	21,094	23,654	22,423
Denmark	15,378	18,234	18,533	18,735	21,788	18,923	18,599
Italy	12,751	14,367	12,533	14,483	16,829	20,058	15,170
Finland	10,469	10,008	12,011	9,782	11,314	13,565	11,192
Slovakia	7,567	7,679	8,051	9,640	11,947	11,826	9,452
Lithuania	6,734	7,103	5,838	6,227	7,655	11,344	7,484
Ireland	5,113	5,659	7,445	7,903	8,267	7,518	6,984
Latvia	6,949	6,891	6,315	5,507	6,508	8,041	6,702
Slovenia	5,838	4,922	5,893	4,753	5,059	5,528	5,332
Estonia	4,398	4,016	4,577	3,736	5,421	6,748	4,816
Hungary	4,068	3,484	-	-	3,492	7,420	3,077
Malta	3,657	3,079	3,640	2,771	3,035	1,732	2,986
Greece	2,058	1,398	8,118	1,205	1,336	2,170	2,714
Luxembourg	2,461	2,761	2,505	2,003	2,092	1,928	2,292
Cyprus	-	-	-	1	-	109	18

Source: Eurostat

Export tons

Country	1999	2000	2001	2002	2003	2004	99-04 Avg
Italy	624,166	637,600	712,735	485,592	521,289	457,618	573,167
Netherlands	91,272	106,958	107,413	112,956	149,614	156,480	120,782
Spain	98,253	113,394	103,853	122,325	130,505	103,536	111,978
Greece	97,178	98,616	116,365	57,610	68,863	65,698	84,055
Belgium	58,441	70,234	63,595	60,963	60,985	68,221	63,740
Austria	13,705	22,012	23,071	21,375	19,971	31,078	21,869
France	20,603	16,438	18,187	16,531	12,195	19,870	17,304
Germany	15,451	11,127	12,282	10,966	21,534	30,759	17,020
United Kingdom	5,232	5,706	4,821	8,538	6,849	8,484	6,605
Slovakia	2,500	4,630	10,646	6,821	7,876	291	5,461
Hungary	1,941	2,329	5,367	631	890	6,154	2,885
Cyprus	4,156	3,787	2,999	958	1,637	1,102	2,440
Czech Republic	367	277	200	162	291	7,830	1,521
Portugal	277	127	371	305	1,035	1,416	589
Poland	84	342	174	146	284	2,328	560
Sweden	280	433	550	365	754	834	536
Lithuania	147	165	147	403	594	883	390
Denmark	225	179	316	279	528	612	357
Ireland	57	96	158	218	208	165	150
Luxembourg	118	136	244	114	66	43	120
Finland	66	123	191	49	56	76	94
Latvia	10	41	5	23	46	242	61
Slovenia	15	16	39	9	12	254	58
Estonia	1	77	34	5	9	6	22
Malta	-	10	10	5	-	-	4

Source: Eurostat

Imports to the EU-25 (tons)

Partner	2000	2001	2002	2003	2004
EU25_INTRA	895,617	898,619	762,247	876,903	875,702
EU25_EXTRA	347,353	345,187	393,209	423,587	468,586
South Africa	130,233	141,837	167,496	157,642	172,382
Chile	87,044	80,121	86,188	110,918	119,676
Turkey	50,890	44,748	36,501	33,284	47,858
Argentina	21,922	20,186	24,701	26,161	32,473
Brazil	7,972	14,585	22,089	33,179	22,017
US	17,835	14,007	14,319	7,969	10,498
India	9,420	6,470	11,332	14,636	11,435
Egypt	3,574	5,184	9,320	9,547	17,217
Mexico	4,112	5,194	5,052	10,371	7,859
Israel	6,720	6,441	4,952	2,963	7,586
Namibia	1,807	1,949	4,959	6,476	6,070
Morocco	1,007	1,332	1,933	4,685	7,576
Peru	1,269	1,560	2,197	3,980	2,966
Australia	1,398	20	1,181	502	2,219
Rest	2,149	1,554	990	1,277	754

Source: Eurostat

Exports from the EU-25 (tons)

Partner	2000	2001	2002	2003	2004
EU25_INTRA	929,684	1,011,991	779,995	874,341	828,169
EU25_EXTRA	97,558	125,202	93,508	100,446	101,589
Russia	13,692	18,370	17,892	23,420	25,893
Switzerland	33,637	37,649	28,790	27,225	22,451
Norway	13,473	19,858	8,956	13,007	12,459
Croatia	6,541	6,706	6,804	6,364	6,556
Albania	2,630	2,370	2,576	4,869	4,224
Bosnia and Herzegovina	2,597	3,858	4,718	3,007	3,494
Romania	2,647	3,476	1,974	1,594	3,156
Canada	4,444	6,597	2,181	2,328	3,138
Relarus	2,186	4,732	3,825	3,576	2,853
Bulgaria	2,299	1,243	282	825	2,652
Macedonia	3,688	3,013	2,165	1,610	1,432
US	1,271	3,132	1,431	996	1,332
Serbia and Montenegro	-	-	-	-	1,176
Saudi Arabia	948	2,549	413	1,470	1,130
Rest	7,506	11,650	11,502	10,156	9,641

Source: Eurostat

ANNEX II: IMPORT RATE OF DUTY

Description	Conventional rate of duty (%)
0806 10 10 Table grapes:	
From 1 January to 14 July:	
-- Of the variety Emperor (Vitis vinifera cv.) from 1 to 31 January (1)	8
-- Other	11.5
From 15 to 20 July	14.1
From 21 July to 31 October:	
With an entry price per 100 kg net weight of:	
---Not less than € 54,6	14.1 (2)
---Not less than € 53,5 but less than € 54,6	17.6 + 1.1 €/ 100 kg/net (2)
---Not less than € 52,4 but less than € 53,5	17.6 + 2.2 €/ 100 kg/net (2)
---Not less than € 51,3 but less than € 52,4	17.6 + 3.3 €/ 100 kg/net (2)
---Not less than € 50,2 but less than € 51,3	17.6 + 4.4 €/ 100 kg/net (2)
---Less than € 50,2	17.6 + 9.6 €/ 100 kg/net (2)
From 1 to 20 November:	
With an entry price per 100 kg net weight of:	
---Not less than € 47,6	11.5
---Not less than € 46,6 but less than € 47,6	14.4 + 1 €/ 100 kg/net
---Not less than € 45,7 but less than € 46,6	14.4 + 1.9 €/ 100 kg/net
---Not less than € 44,7 but less than € 45,7	14.4 + 2.9 €/ 100 kg/net
Not less than € 43,8 but less than € 44,7	14.4 + 3.8 €/ 100 kg/net
Less than € 43,8	14.4 + 9.6 €/ 100 kg/net
From 21 November to 31 December:	
-- Of the variety Emperor (Vitis vinifera cv.) from 1 to 31 December (1)	8
-- Other	11.5

(2) The ad valorem duty is reduced to 9 for a 1,500 t quota.

Source: Commission Regulation (EC) No **1549/2006**